

Message Text

PAGE 01 STATE 133630

42

ORIGIN SS-25

INFO OCT-01 ISO-00 /026 R

DRAFTED BY E:RPOATS:LVS
APPROVED BY E:CWROBINSON
NESA/ME:BRICHARDSON (IN DRAFT)
AID/CAIRO:WTEMPLETON (IN DRAFT)
NEA/EGY:LSEMAKIS (IN DRAFT)
NEA:ALATHERTON (IN DRAFT)
S/S - MR. ORTIZ

----- 093121

P 071859Z JUN 75
FM SECSTATE WASHDC
TO AMEMBASSY CAIRO PRIORITY

C O N F I D E N T I A L STATE 133630

EXDIS

E.O. 11652: GDS

TAGS: EAID, USEGJC

SUBJECT: COORDINATED PRESENTATION OF EGYPT'S FINANCIAL
ASSISTANCE REQUIREMENT

1. IN ORDER TO ACHIEVE BROAD PARTICIPATION IN ADEQUATE AMOUNTS IN EGYPTIAN AID PACKAGE, IT IS ESSENTIAL THAT USG AND GOE APPROACH PROSPECTIVE PARTICIPANTS WITH CONSISTENT, IF NOT ABSOLUTELY IDENTICAL, STATEMENTS OF EGYPT'S BALANCE OF PAYMENTS PROBLEM AND REALISTIC REQUIREMENT FOR ADDITIONAL AID, INCLUDING TIMING, AND EGYPTIAN ASSURANCES TO FOREIGN CREDITORS AS TO SELF-HELP MEASURES GOE WILL TAKE. INCONSISTENT AND UNCOORDINATED GOE AND USG APPROACHES TO PROSPECTIVE PARTICIPANTS COULD LEAD NOT ONLY TO EMBARRASSMENT BUT ALSO TO DEFERRAL OF AID DECISIONS OR REDUCTIONS OF OTHERWISE LIKELY CONTRIBUTIONS BY SOME GOVERNMENTS. IN A FORMAL AID CONSORTIUM, SUCH A COORDINATED STATEMENT USUALLY IS DRAFTED BY THE CONSORTIUM CHAIRMAN, WHO REPRESENTS AN CONFIDENTIAL

PAGE 02 STATE 133630

INTERNATIONAL FINANCIAL INSTITUTION. IN THE ABSENCE OF SUCH A COORDINATOR IN THIS CASE, USG SHOULD HELP GOE DRAFT THIS STATEMENT IN VIEW OF USG ROLE AS INFORMAL PROMOTER OF INTERNATIONAL EFFORT TO AID EGYPT.

2. QUESTIONS ALREADY RAISED BY SOME GOVERNMENTS APPROACHED ON VERY DIFFERENT FACTIONAL BASES BY USG AND GOE DEMONSTRATE URGENT NEED FOR COORDINATED POSITION. AMBASSADOR'S DISCUSSIONS REGARDING THIS STATEMENT ALSO COULD BE VEHICLE FOR CLARIFYING PLANNED USG PARTICIPATION, WHICH HAS BEEN SUBJECT TO MISUNDERSTANDING DUE TO VARIOUS REFERENCES TO CY 1975, FY 1975 AND FY 1976 FUNDS AND TO PROJECT AND NON-PROJECT AID AMOUNTS.

3. UNLESS AMBASSADOR PERCEIVES OBJECTION, REQUEST THAT DRAFTING OF GOE STATEMENT BE INITIATED BY OFFERING THE FOLLOWING INCOMPLETE DRAFT TO FINANCE MINISTER ABU ISMAIL WH3BH WITH SUITABLE EXPLANATION DRAWING ON FOREGOING POINTS. IN THIS DISCUSSION SUGGEST AMBASSADOR CONVEY UNDER SECRETARY ROBINSON'S BELIEF THAT IN HIS DISCUSSIONS WITH PROSPECTIVE CONTRIBUTORS, RESUMING IN EUROPE JUNE 11, IT WOULD BE VERY HELPFUL TO HAVE WRITTEN STATEMENT OF GOE'S POSITION. ALSO, AS HE IS ADVISING PROSPECTIVE PARTICIPANTS TO TAKE UP MATTER DIRECTLY WITH GOE, HE NEEDS TO BE SURE THAT GOE AND WE ARE MAKING ESSENTIALLY SAME CASE. IF GOE UNWILLING TO AGREE TO WRITTEN STATEMENT, WE NEED IN ANY EVENT FIRM UNDERSTANDING ON POSITION TO BE COMMUNICATED TO OTHER GOVERNMENTS BY USG AND GOE.

4. THE FOLLOWING DRAFT MIGHT BE EXPANDED BY GOE, DRAWING ON PORTIONS OF SALIM LETTER TO MCNAMARA IN PARAS D AND E. ALTERNATIVELY, IT MIGHT BE SUPPLEMENTED BY GOE'S SHOWING FULL TEXT OF LETTER TO AMBASSADORS OF GOVERNMENTS CONTEMPLATING MAJOR PARTICIPATION IN FINANCIAL AID PACKAGE.

5. TEMPLETON HAS REVIEWED THIS DRAFT AND WILL RETURN TO CAIRO SATURDAY TO ASSIST IN NEGOTIATING LANGUAGE WITH GOE.

6. DRAFT TEXT FOLLOWS:

CONFIDENTIAL

PAGE 03 STATE 133630

A. EGYPT IS EXPERIENCING A SEVERE BALANCE OF PAYMENTS PROBLEM RESULTING FROM (1) DEPRESSED MARKET AND PRICES FOR COTTON AND RISING PRICES OF INDUSTRIAL GOODS IMPORTS; (2) NECESSARY INCREASES IN IMPORTS OF INDUSTRIAL RAW MATERIALS AND OTHER PRODUCTION GOODS AND EQUIPMENT REQUIRED TO RAISE INDUSTRIAL PRODUCTIVITY; (3) NECESSARY INCREASES IN IMPORTS OF CONSUMER GOODS REQUIRED TO OFFSET CROP FAILURES AND EXPAND RATIONS; AND (4) HEAVY CARRYING CHARGES ON FOREIGN COMMERCIAL BANK CREDITS AND THE NECESSITY OF MAKING NET REPAYMENTS THIS YEAR ON SUCH CREDITS.

B. THE BALANCE OF PAYMENTS DEFICIT CANNOT BE

SUBSTANTIALLY OFFSET BY DRAWING DOWN FOREIGN EXCHANGE RESERVES, AS EGYPT'S RESERVES ALREADY HAVE DECLINED TO A MINIMUM LEVEL REQUIRED FOR NATIONAL SECURITY. THE OPTION OF CUTTING BACK SHARPLY ON IMPORTS OF INTER-MEDIATE GOODS IS UNACCEPTABLE AS THIS WOULD WEAKEN INDUSTRIAL RECOVERY AND PROLONG DEPENDENCE ON IMPORTS OF CONSUMER GOODS.

C. EGYPT'S FOREIGN EXCHANGE BUDGET, BASED ON FUNDING REQUIRED TO OPEN LETTERS OF CREDIT AND TO SERVICE DEBT, PROJECTS A DEFICIT ON INTERNATIONAL TRADE AND SERVICE ACCOUNTS IN 1975 OF ABOUT 1,400 MILLION EGYPTIAN POUNDS (LE 1,400 MILLION). THIS IS HIGHER THAN THE DEFICIT CALCULATED ON THE CONVENTIONAL CENTRAL BANK PAYMENTS BASIS, BUT IT IS THE MORE ACCURATE MEASURE OF THE FOREIGN EXCHANGE REQUIRED TO OPEN LETTERS OF CREDIT IN AN EXPANDING IMPORT PROGRAM. IN ADDITION, DEBT SERVICE DUE ON LONG AND MEDIUM TERM DEBT (INCLUDING LE 192 MILLION IN NET PAYMENTS ON BILATERAL AGREEMENT ACCOUNTS) AMOUNT TO ABOUT LE 400 MILLION IN 1975. THE TOTAL DEFICIT OF APPROXIMATELY LE 1,800 MILLION IS ASSUMED TO BE FINANCED TO THE EXTENT OF ABOUT LE 1,075 MILLION BY FOREIGN ASSISTANCE GRANTS AND LOANS AND MEDIUM AND LONG TERM SUPPLIER CREDITS (OF WHICH MORE THAN LE 100 MILLION IN ASSUMED ADDITIONAL GRANTS HAD NOT ACTUALLY BEEN COMMITTED AS OF JUNE 1, 1975). THUS, THE NET DEFICIT IS ABOUT LE 730 MILLION, EQUIVALENT TO ABOUT US DOLS. 1,800 MILLION.

CONFIDENTIAL

PAGE 04 STATE 133630

D. THE GOVERNMENT OF EGYPT INTENDS TO TAKE THE FOLLOWING MEASURES TO REDUCE THE DEFICIT: (1) DEFER CERTAIN CAPITAL GOODS IMPORTS, YIELDING A SAVING IN DOWN PAYMENTS; (2) LIMIT DEBT SERVICE TO FOREIGN OFFICIAL CREDITORS OVER THE NEXT 12 MONTHS TO THE AMOUNT OF NEW CIVIL CREDITS PROVIDED BY EACH SUCH CREDITOR; (3) SELECTIVELY REDUCE OR DEFER IMPORTS OF INTERMEDIATE AND CONSUMER GOODS DURING THE REMAINDER OF 1975. THESE MEASURES SHOULD IN THE AGGREGATE REDUCE THE DEFICIT TO ABOUT LE 350 - LE 400 MILLION, THE EQUIVALENT OF ABOUT US DOLS 900 MILLION AND DOLS 1,000 MILLION

- E. THE NEW CABINET HAS UNDERTAKEN EXTENSIVE REVIEWS OF THE IMMEDIATE AND LONGER TERM FINANCIAL OUTLOOK AND OF BOTH POLICY AND ADMINISTRATIVE MEASURES REQUIRED TO REDUCE EGYPT'S DEPENDENCE UPON FOREIGN FINANCING OF CURRENT IMPORTS. THE GOVERNMENT IS CONSULTING WITH TECHNICAL EXPERTS OF THE IBRD ON MEASURES TO IMPROVE THE MANAGEMENT AND ALLOCATION OF FOREIGN EXCHANGE. THE ADVICE OF THE

IMF ALSO HAS BEEN SOUGHT. ONCE THE IMMEDIATE BALANCE OF PAYMENTS DEFICIT HAS BEEN CLOSED BY THE MEASURES

INDICATED ABOVE AND BY THE RECEIPT OF ADDITIONAL OFFICIAL FINANCIAL ASSISTANCE, THERE ARE GOOD PROSPECTS OF OBTAINING REFINANCING ON MEDIUM TERM OF MUCH OF THE ACCUMULATED SHORT-TERM COMMERCIAL DEBT. THE MEDIUM AND LONGER TERM OUTLOOK FOR THE ECONOMY IS MORE FAVORABLE, WITH PROSPECTS OF SUBSTANTIAL EXPANSION OF DOMESTIC PRODUCTION OF PETROLEUM, INDUSTRIAL AND AGRICULTURAL GOODS, RECOVERY OF EXTERNAL DEMAND FOR EGYPTIAN COTTON AND OTHER EXPORTS, AND INCREASED FOREIGN EXCHANGE EARNINGS FROM THE REOPENED SUEZ CANAL AND TOURISM. CONSEQUENTLY, IT CAN BE REASONABLY EXPECTED THAT RISING PROPORTIONS OF FOREIGN CAPITAL FLOWS TO EGYPT, IN 1976 AND THEREAFTER, CAN BE INVESTED IN NEW PRODUCTIVE CAPACITY AND SUPPORTING INFRASTRUCTURE.

F. IN ORDER TO CLOSE THE GAP IN AVAILABLE FINANCING OF ESSENTIAL CURRENT IMPORTS DURING THE REMAINDER OF 1975, THE GOVERNMENT OF EGYPT IS ASKING CONFIDENTIAL

PAGE 05 STATE 133630

INTERESTED FOREIGN GOVERNMENTS AND INTERNATIONAL AGENCIES FOR ADDITIONAL FINANCIAL ASSISTANCE IN FORMS APPROPRIATE TO THIS NEED AND ON TERMS APPROPRIATE TO EGYPT'S DIFFICULT ECONOMIC SITUATION. AS EXPLAINED ABOVE, APPROXIMATELY US \$1 BILLION WILL BE NEEDED OVER THE NEXT SIX MONTHS, AND A SUBSTANTIAL PART OF THIS AMOUNT IS NEEDED IMMEDIATELY SO AS TO PREVENT WASTEFUL INTERRUPTION OF IMPORT PROCUREMENT PROGRAMS AND FURTHER DAMAGE TO EGYPT'S INTERNATIONAL CREDIT.

G. THE GOVERNMENT OF THE UNITED STATES PROMPTLY RESPONDED TO THIS REQUEST, CONDITIONALLY OFFERING TO PROVIDE DURING THE SEVEN REMAINING MONTHS OF 1975 \$250 MILLION FOR IMPORT-FINANCING, IN ADDITION TO THE \$150 MILLION IN U.S. NON-PROJECT LOANS AND \$100 MILLION IN U.S. PROJECT AID PROVIDED OR TO BE PROVIDED DURING 1975. POSITIVE RESPONSES HAVE BEEN RECEIVED FROM THE GOVERNMENTS OF SAUDI ARABIA AND IRAN, AND DISCUSSIONS HAVE BEEN INITIATED WITH OTHER GOVERNMENTS. RECOGNIZING THE DIFFICULTY SOME GOVERNMENTS MAY HAVE IN RESPONDING IMMEDIATELY TO THIS URGENT REQUEST, THE GOVERNMENT OF EGYPT IS AGREEABLE TO THEIR REALLOCATION TO CURRENT IMPORT FINANCING OF SOME ASSISTANCE FUNDS WHICH THEY PREVIOUSLY OFFERED FOR EGYPTIAN DEVELOPMENT PROJECTS BUT HAVE NOT YET FIRMLY COMMITTED TO PARTICULAR PROJECTS. (END DRAFT TEXT)

7. IN PRESENTING FOREGOING TEXT, AMBASSADOR IS REQUESTED TO CLARIFY RELATIONSHIP OF CY 1975 EMERGENCY US AID AND FY 1975 AND FY 1976 FUNDING AS FOLLOWS:

A. DURING THE COURSE OF CY 1975, USG INTENDS TO

PROVIDE ABOUT DOLS. 500 MILLION IN ECONOMIC ASSISTANCE TO EGYPT, DRAWING ON BOTH FY 1975 AND FY 1976 FUNDS IN AID AND PL 480 PROGRAMS. THE CY 1975 ASSISTANCE AS PRESENTLY FORESEEN WILL CONSIST OF:

(1) ABOUT DOLS. 100 MILLION IN AID PROJECT ASSISTANCE AND PL 480 TITLE II PROJECT ASSISTANCE (INCLUDING SUEZ AREA HIGHWAY EQUIPMENT, ELECTRICAL DISTRIBUTION EQUIPMENT, CANAL CLEARANCE, GRAIN SILOS AND CONFIDENTIAL

PAGE 06 STATE 133630

CHILD FEEDING);

(2) ABOUT DOLS. 70 MILLION IN PL 480 TITLE I WHEAT ALREADY PROVIDED AGAINST EGYPT'S CY 1975 IMPORT PROGRAM (THAT IS, CY 1975 PORTION OF TOTAL OF DOLS. 110 MILLION IN FY 1975 PL 480 TITLE I CREDITS);

(3) DOLS. 80 MILLION AID COMMODITY IMPORT LOAN MADE IN FEBRUARY;

(4) DOLS. 70 MILLION IN AID COMMODITY IMPORT LOAN TO BE MADE IN LATE JUNE, USING PREVIOUSLY ANNOUNCED FY 1975 AID FUNDS, AS FIRST INCREMENT OF U.S. SHARE OF INTERNATIONAL FINANCIAL EMERGENCY PACKAGE WITH OTHER DONORS;

(5) ABOUT DOLS. 80 MILLION PL 480 TITLE I LOAN, DRAWING ON FY 1976 FUNDS, TO BE MADE IN LATE SUMMER CONSISTING OF ABOUT 500,000 TONS OF WHEAT -- ASSUMING U.S. WHEAT AVAILABILITY AND PRESENT PRICE ESTIMATES -- PLUS ABOUT DOLS. 10 MILLION WORTH OF TOBACCO;

(6) DOLS. 100 MILLION AID COMMODITY IMPORT LOAN, DRAWING ON FY 1976 AID FUNDS, TO BE MADE IN THE FALL PROVIDED CONGRESSIONAL APPROPRIATION ACT OR CONTINUING RESOLUTION PERMITS THIS SCALE AND TIMING OF LOAN. (THIS IS WELL WITHIN MOST CONSERVATIVE ASSUMPTIONS ON BOTH AMOUNT AND TIMING.)

B. DURING THE SEVEN MONTHS, JUNE 1975 THROUGH DECEMBER 1975 -- THE PERIOD COVERED BY THE EMERGENCY INTERNATIONAL FINANCIAL PACKAGE -- THE USG EXPECTS TO PROVIDE, AS DETAILED IN SUBPARAGRAPHS 4, 5, AND 6 ABOVE,

A TOTAL OF DOLS. 250 MILLION IN LOANS TO FINANCE ESSENTIAL EGYPTIAN IMPORTS, SUBJECT TO THE QUALIFICATIONS STATED ABOVE AND TO THE ASSURANCES ALREADY GIVEN BY THE GOE, THAT IS, (A) EQUITABLE PARTICIPATION BY OTHER GOVERNMENTS IN PROVIDING EFFECTIVE BALANCE OF PAYMENTS SUPPORT TO EGYPT DURING THIS PERIOD; (B) NO NET REPAYMENT BY GOE TO MAJOR FOREIGN OFFICIAL CREDITORS DURING NEXT 12 MONTHS;

CONFIDENTIAL

PAGE 07 STATE 133630

AND (C) GOE ACTION IN CONSULTATION WITH IBRD TO INSTALL
MORE EFFECTIVE SYSTEM OF FOREIGN EXCHANGE MANAGEMENT AIMED
AT CORRECTING CAUSES OF PRESENT EMERGENCY. KISSINGER

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, FINANCIAL CONTRIBUTIONS, FOREIGN EXCHANGE, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 JUN 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE133630
Document Source: ADS
Document Unique ID: 00
Drafter: E:RPOATS:LVS
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D750200-0106
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197506100/baaaambi.tel
Line Count: 280
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUL 2003 by CunninFX>; APPROVED <22 DEC 2003 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EAID, EG, SA, IR, USEGJC
To: CAIRO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006